

JONES COUNTY SCHOOL DISTRICT NO. 37-3

AUDIT REPORT

JUNE 30, 2010

JONES COUNTY SCHOOL DISTRICT NO. 37-3
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

School Board
Jones County School District No. 37-3
Jones County County, South Dakota

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Jones County School District No. 37-3, Jones County County, South Dakota, as of and for the fiscal year ended June 30, 2010, which collectively comprise Jones County School District's basic financial statements, and have issued my report thereon dated August 12, 2010. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed in the accompanying Schedule of current Audit Findings, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented or detected and corrected on a timely basis.

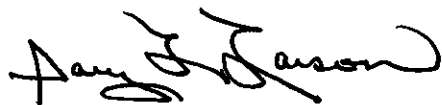
I consider the deficiency described in the Schedule of Current Audit Findings as item number 2010-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Jones County School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The School District's response to the findings identified in my audit is described in the accompanying Schedule of Current Audit Findings. I did not audit the School District's response and, accordingly, I express no opinion on it.

This report is intended for the information and use of the South Dakota Legislature, the governing board and management of Jones County School District No. 37-3 and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



August 12, 2010

JONES COUNTY SCHOOL DISTRICT NO. 37-3
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2010

FINDING NO. 2009-1 AND 2008-01:

A material weakness was reported due to a lack of segregation of duties. This finding was first noted by the present auditor in 1994.

Status of June 30, 2010:

The condition noted in prior audits is still applicable.

JONES COUNTY SCHOOL DISTRICT NO. 37-3
SCHEDULE OF CURRENT AUDIT FINDINGS
JUNE 30, 2010

FINDING No. 2010-01:

A material weakness in internal control exists due to a lack of segregation of duties in the revenue, expenditure and payroll functions.

CRITERIA:

To obtain adequate internal control, the duties of collecting and handling of cash must be segregated from the recording of cash transactions. The duties of preparing, mailing or otherwise distributing checks should be segregated from the recording process. Various other accounting functions should be performed by different people to insure a proper segregation of duties.

POSSIBLE ASSERTED EFFECT:

Inaccurate financial statements and/or misappropriation of funds could result from a lack of segregation of duties.

RECOMMENDATION:

Management should remain aware of this situation and attempt to provide compensating controls wherever and whenever possible and practical.

SCHOOL DISTRICT RESPONSE:

School district management agrees with the finding. This situation is a result of the size of the Jones County School District No. 37-3 which precludes staffing at a level sufficient to provide an ideal environment for internal controls. Jones County School District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenue, expenditures and payroll. Jones County School District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding the revenue, expenditures and payroll functions continues to exist.

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INDEPENDENT AUDITOR'S REPORT

School Board
Jones County School District No. 37-3
Jones County County, South Dakota

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Jones County School District No. 37-3, Jones County County, South Dakota, as of June 30, 2010, and for the fiscal year then ended, which collectively comprise the School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Jones County School District's management. My responsibility is to express opinions on these financial statements based on my audit.


I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Jones County School District No. 37-3 as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued a report dated August 12, 2010 on my consideration of Jones County School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The budgetary comparison information on pages 47 through 62 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

The Jones County School District No. 37-3 has not presented the Management's Discussion and Analysis (MD&A) that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.



August 12, 2010

JONES COUNTY SCHOOL DISTRICT NO. 37-3
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$2,051,864	\$12,126	\$2,063,990
Receivables	673,167	316	673,483
Inventory	468	2,313	2,781
Capital Assets:			
Land	27,980	0	27,980
Other capital assets, net of depreciation	1,977,806	70,997	2,048,803
TOTAL ASSETS	\$4,731,285	\$85,752	\$4,817,037
LIABILITIES:			
Accounts payable	\$2,119	\$0	\$2,119
Other current liabilities	134,976	0	134,976
Deferred revenue	548,676	1,261	549,937
Noncurrent liabilities:			
Due in more than one year	12,611	0	12,611
TOTAL LIABILITIES	698,382	1,261	699,643
NET ASSETS:			
Invested in capital assets	2,005,786	70,997	2,076,783
Restricted For:			
Capital outlay	248,716	0	248,716
Special education	888,051	0	888,051
Pension	261,528	0	261,528
Food service	0	13,494	13,494
Unrestricted	628,822	0	628,822
TOTAL NET ASSETS	4,032,903	84,491	4,117,394
TOTAL LIABILITIES AND NET ASSETS	\$4,731,285	\$85,752	\$4,817,037

The accompanying notes to financial statements
are an integral part of this statement.

JONES COUNTY SCHOOL DISTRICT NO. 37-3
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	PROGRAM REVENUES	
		Charges for Services	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$1,046,804	\$0	\$229,309
Support services	836,880	4,075	52,441
Community services	90,441	3,012	79,491
Co curricular activities	103,737	27,654	0
Total Governmental Activities	\$2,077,862	\$34,741	\$361,241
Business-type Activities:			
Food service	102,915	52,826	46,761
Total	\$2,180,777	\$87,567	\$408,002

GENERAL REVENUES:

Property taxes
Gross receipts taxes
State aid
Unrestricted federal aid
Unrestricted investment earnings
Other general revenues

Total general revenues

Change in net assets

Net Assets-beginning

NET ASSETS-ending

The accompanying notes to financial statements
are an integral part of this statement

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

Governmental Activities	Business-type Activities	Total
(\$817,495)	\$0	(\$817,495)
(780,364)	0	(780,364)
(7,938)	0	(7,938)
(76,083)	0	(76,083)
(1,681,880)	0	(1,681,880)
0	(3,328)	(3,328)
(1,681,880)	(3,328)	(1,685,208)
1,122,860	0	1,122,860
65,507	0	65,507
465,643	0	465,643
5,771	0	5,771
6,098	0	6,098
50,424	0	50,424
1,716,303	0	1,716,303
34,423	(3,328)	31,095
3,998,480	87,819	4,086,299
<u>\$4,032,903</u>	<u>\$84,491</u>	<u>\$4,117,394</u>

JONES COUNTY SCHOOL DISTRICT NO. 37-3
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General Fund	Capital Outlay Fund	Special Education Fund
ASSETS:			
Cash and cash equivalents	\$680,012	\$248,547	\$861,860
Taxes receivable-current	326,585	74,633	116,763
Taxes receivable-delinquent	1,717	169	403
Due from other governments	74,232	0	47,887
Inventory of supplies	468	0	0
TOTAL ASSETS	\$1,083,014	\$323,349	\$1,026,913
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$1,626	\$0	\$493
Contracts payable	88,649	0	17,058
Payroll deductions and withholding and employer matching payable	24,721	0	4,548
Deferred revenue	328,302	74,802	117,166
TOTAL LIABILITIES	443,298	74,802	139,265
Fund Balances:			
Reserved:			
Reserved for inventory	468	0	0
Unreserved			
Designated for FY '11 budget	171,229	0	8,528
Undesignated	468,019	248,547	879,120
TOTAL FUND BALANCES	639,716	248,547	887,648
TOTAL LIABILITIES AND FUND BALANCES	\$1,083,014	\$323,349	\$1,026,913

The accompanying notes to financial statements
are an integral part of this statement

Pension Fund	Total Governmental Funds
\$261,445	\$2,051,864
30,695	548,676
83	2,372
0	122,119
0	468
<u>\$292,223</u>	<u>\$2,725,499</u>

\$0	\$2,119
0	105,707
0	29,269
<u>30,778</u>	<u>551,048</u>
<u>30,778</u>	<u>688,143</u>

0	468
0	179,757
<u>261,445</u>	<u>1,857,131</u>
<u>261,445</u>	<u>2,037,356</u>
<u>\$292,223</u>	<u>\$2,725,499</u>

JONES COUNTY SCHOOL DISTRICT NO. 37-3
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET ASSETS
JUNE 30, 2010

Total Fund Balances-Government Funds	\$2,037,356
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,005,786
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Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures and therefore are deferred in the funds. The funds report taxes as revenue when received, or when available within a 60 day period after year end. The statement of net assets reports taxes as revenue when earned for the fiscal year they were levied to fund.	2,372
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Long-term liabilities such as the annual required contribution to "Other Post Employment Benefit" plans are reported in the governmental activities but not in the fund statement.	<u>(12,611)</u>
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Net Assets-Governmental Funds	<u><u>\$4,032,903</u></u>
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The accompanying notes to financial statements
are an integral part of this statement.

JONES COUNTY SCHOOL DISTRICT NO. 37-3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Capital Outlay Fund	Special Education Fund
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$645,937	\$139,573	\$268,107
Prior year's ad valorem taxes	4,862	680	1,701
Gross receipts taxes	65,507	0	0
Penalties and interest	2,449	404	959
Earnings on deposits:			
Interest earned	3,545	562	1,991
Co curricular activities:			
Admissions	9,579	0	0
Other	18,075	0	0
Other revenues from local sources:			
Rentals	4,075	0	0
Contributions	2,297	0	0
Day care services	3,012	0	0
Other	2,520	28,283	0
Revenues from Intermediate Sources:			
County Sources:			
County apportionment	17,324	0	0
Revenues from State Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid	465,643	0	0
Revenues from Federal Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid received from federal government through state	5,771	0	0
Restricted grants-in-aid received from federal government through state	224,420	52,441	84,380
Total Revenue	<u>\$1,475,016</u>	<u>\$221,943</u>	<u>\$357,138</u>

The accompanying notes to financial statements are an
integral part of this statement.

Pension Fund	Total Governmental Funds
\$62,254	\$1,115,871
332	7,575
0	65,507
197	4,009
0	6,098
0	9,579
0	18,075
0	4,075
0	2,297
0	3,012
0	30,803
0	17,324
0	465,643
0	5,771
0	361,241
<u>\$62,783</u>	<u>\$2,116,880</u>

JONES COUNTY SCHOOL DISTRICT NO. 37-3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Capital Outlay Fund	Special Education Fund
Expenditures:			
Instruction:			
Regular Programs:			
Elementary	\$350,716	\$7,857	\$0
High school	368,028	24,331	0
Other	6,600	0	0
Special Programs:			
Programs for special education	0	0	165,261
Educationally deprived	91,922	0	0
Support Services:			
Pupils-			
Guidance	7,233	0	0
Health	7,200	0	0
Psychological	1,541	0	0
Speech pathology	0	0	35,079
Instructional staff-			
Improvement of instruction	25,168	0	0
Educational media	58,243	2,938	0
General administration-			
Board of education	13,820	0	0
Executive administration	72,867	0	0
School Administration-			
Office of the principal	73,499	0	0
Business-			
Fiscal services	81,614	0	0
Operation and maintenance of plant	236,785	101,048	0
Pupil transportation	58,652	59,641	0
Other	16,365	0	5,901
Central:			
Staff	346	0	0

The accompanying notes to financial statements are an
integral part of this statement.

Pension Fund	Total Governmental Funds
\$0	\$358,573
0	392,359
0	6,600
0	165,261
0	91,922
0	7,233
0	7,200
0	1,541
0	35,079
0	25,168
0	61,181
0	13,820
0	72,867
0	73,499
0	81,614
0	337,833
0	118,293
0	22,266
0	346

JONES COUNTY SCHOOL DISTRICT NO. 37-3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Capital Outlay Fund	Special Education Fund
Community Services:			
Care and custody of children	\$90,441	\$0	\$0
Co curricular activities:			
Male activities	21,653	978	0
Female activities	18,571	2,430	0
Transportation	14,787	12,500	0
Combined activities	35,840	0	0
	<hr/>	<hr/>	<hr/>
Total Expenditures	1,651,891	211,723	206,241
	<hr/>	<hr/>	<hr/>
Net Change in Fund Balances	(176,875)	10,220	150,897
FUND BALANCE, JULY 1, 2009	816,591	238,327	736,751
	<hr/>	<hr/>	<hr/>
FUND BALANCE, JUNE 30, 2010	\$639,716	\$248,547	\$887,648
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes to financial statements are an
integral part of this statement.

<u>Pension Fund</u>	<u>Total Governmental Funds</u>
\$0	\$90,441
0	22,631
0	21,001
0	27,287
0	35,840
<u>0</u>	<u>2,069,855</u>
62,783	47,025
<u>198,662</u>	<u>1,990,331</u>
<u>\$261,445</u>	<u>\$2,037,356</u>

JONES COUNTY SCHOOL DISTRICT NO. 37-3
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Net Changes in Fund Balances-Total Governmental Funds	\$47,025
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	4,604
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Government funds report property taxes as revenue when cash is received (or available with 60 days), but the statement of activities includes the property taxes as revenue when earned for the fiscal year the levy was intended.	(4,595)
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Governmental Funds report benefits as expenditures. However, in the statement of activities, the change in long-term liabilities for "other post-employment benefits" is reported as an expense of the current year.	(12,611)
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Change in Net Assets of Governmental Activities	<u>\$34,423</u>
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The accompanying notes to financial statements
are an integral part of this statement.

**JONES COUNTY SCHOOL DISTRICT NO. 37-3
BALANCE SHEET - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

	ENTERPRISE FUNDS
	Food Service Funds
ASSETS:	
Current Assets:	
Cash and cash equivalents	\$12,126
Accounts receivable	316
Inventory of donated food	2,313
Total Current Assets	<u>14,755</u>
Noncurrent Assets:	
Capital Assets:	
Machinery and equipment	94,681
Accumulated depreciation	<u>(23,684)</u>
Total Noncurrent Assets	<u>70,997</u>
TOTAL ASSETS	<u><u>\$85,752</u></u>
LIABILITIES	
Deferred revenue	<u>\$1,261</u>
NET ASSETS	
Invested in capital assets	70,997
Unrestricted net assets	<u>13,494</u>
Total Net Assets	<u>84,491</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$85,752</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

JONES COUNTY SCHOOL DISTRICT NO. 37-3
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	ENTERPRISE FUNDS
	Food Service Fund
Operating Revenue:	
Sales:	
To pupils	\$46,617
To adults	6,209
Total Operating Revenue	<u>52,826</u>
Operating Expenses:	
Food Services:	
Purchased services	91,315
Cost of sales-donated food	5,706
Depreciation	5,894
Total Operating Expenses	<u>102,915</u>
Operating Loss	<u>(50,089)</u>
Nonoperating Revenue (Expense)	
State Sources:	
Cash reimbursements	505
Federal Sources:	
Cash reimbursements	40,051
Donated food	6,205
Total Nonoperating Revenue (Expense)	<u>46,761</u>
Change in Net Assets	(3,328)
Net Assets-beginning	<u>87,819</u>
Net Assets-ending	<u><u>\$84,491</u></u>

The accompanying notes to financial statements
are an integral part of this statement.

JONES COUNTY SCHOOL DISTRICT NO. 37-3
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Enterprise Funds
Cash Flows from Operating Activities:	
Receipts from customers	\$52,363
Payments to suppliers	(91,315)
Net Cash Provided (Used) by Operating Activities	(38,952)
Cash Flows from Noncapital Financing Activities:	
Operating subsidies	40,556
Net Increase in Cash and Cash Equivalents	1,604
Cash and Cash Equivalents at Beginning of Year	10,522
Cash and Cash Equivalents at End of Year	12,126
Net Increase in Cash and Cash Equivalents	\$1,604

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:**

Operating Income (Loss)	(\$50,089)
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Adjustments to Reconcile Operating Income to Net Cash

Provide (Used) by Operating Activities:

Depreciation expense	5,894
Commodities used	5,706

Changes in Assets and Liabilities:

Accounts receivable	(151)
Deferred revenue	(312)

Net Cash Provided (Used) by Operating Activities	(\$38,952)
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Noncash Investing, Capital and Financing Activities:

Value of commodities received	\$6,205
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The accompanying notes to financial statements
are an integral part of this statement.

JONES COUNTY SCHOOL DISTRICT NO. 37-3
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2010

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	<u>\$50,344</u>
Total Assets	<u><u>\$50,344</u></u>
 LIABILITIES:	
Amounts held for others	<u>50,344</u>
Total Liabilities	<u><u>\$50,344</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the school district conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Financial Reporting Entity:

The reporting entity of Jones County School District No. 37-3, consists of the primary government (which includes all of the funds, organizations, institutions, agencies departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial entity's financial statements to be misleading or incomplete.

The school district participates in a cooperative service unit with five other school districts. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the School District.

b. Basis of Presentation:

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity, except for fiduciary funds. These statements distinguish between the *governmental and business-type activities*.

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets reports all financial and capital resources, in a net assets form (assets minus liabilities equal net assets). Net assets are displayed in three components, as applicable, invested in capital assets net of related debt, restricted (distinguishing between major categories of restrictions) and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental,

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the district or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the School District financial reporting entity are described below within their respective fund types:

Governmental Funds:

General Fund - A fund established by South Dakota Codified Laws (SDLC) 13-16-3 to meet all the general operational costs of the school district, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

Special Revenue Fund Types - special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Outlay Fund - A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of , acquisition of or additions to real property, plant or equipment, textbooks and instructional software. This fund is financed by property taxes. This is a major fund.

Special Education Fund - A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the School District. This fund is financed by grants and property taxes. This is a major fund.

Pension Fund - A fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts, which have established such systems, paying the district's share of retirement plan contributions, and for funding early retirement benefits to qualifying employees. This fund is financed by property taxes. This is a major fund.

Proprietary Funds:

Enterprise Funds - enterprise funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Food Service Fund - a fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The proprietary funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

Fiduciary Funds:

Fiduciary Funds are never considered to be major funds.

Agency Fund Types - agency fund types are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The district maintains agency funds to hold assets as an agent in a trustee capacity for various clubs and student organizations.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the Government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

Basis of Accounting

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Jones County School District No. 37-3, the length of that cycle is 60 days. The revenues which are accrued at June 30, 2010 are Federal reimbursement grants.

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principle and interest on general long-term debt which are recognized when due.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department or fund. When expenses are charged, in this manner, expense reductions occur in the Internal Service Funds so that expenses are reported only in the function to which they relate.

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources".

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in government-wide or fund financial statements.

Government-Wide Statements:

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

The total June 30, 2010 balance of capital assets for governmental activities includes approximately 3 percent for which the costs were determined by estimates of the original costs. These estimated original costs were established by the deflated current replacement cost.

The June 30, 2010 balance of capital assets for business-type activities are all at actual cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ ALL	N/A	N/A
Improvements	25,000	Straight-line	15-50 yrs
Buildings	25,000	Straight-line	15-50 yrs
Machinery and Equipment	\$ 500	Straight-line	5-15 yrs

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

f. Long-term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. There were no long-term liabilities as of June 30, 2010.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principle and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

g. Program Revenues:

In the Government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the School District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Charges for goods and services - These arise from charges to customers, applicants, or others who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Fund Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

i. Cash and Cash Equivalents:

The School District pools its cash resources for depositing and investing purposes. Accordingly, the enterprise fund has access to its cash resources on demand. Accordingly, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Agency Funds have no fund equity.

k. Application of Net Assets:

It is the School District's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The School District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

Deposits - The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to or at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits School District funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Credit Risk - State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices.

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

2. DEPOSITS AND INVESTMENTS, CREDIT RISK CONCENTRATIONS OF
CREDIT RISK AND INTEREST RATE RISK (continued)

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2010, none of the District's deposits in financial institutions were exposed to custodial credit risk.

Custodial Credit Risk Investments - The risk that, in the event of the counter-party to a transaction, the School District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

As of June 30, 2010, the School District had no investments.

Interest Rate Risk - The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk - The School District places no limit on the amount that may be invested in any one issuer.

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from investments to the fund making the investment, except for the Pension and Food Service Funds, whose interest is transferred to the General Fund.

3. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year.

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

4. INVENTORY

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

In the Government-wide financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the fund financial statements, inventories in the General Fund and Special Revenue Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

5. DEFERRED REVENUE

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

6. PROPERTY TAX

Property taxes are levied on or before each October 1, attach as an enforceable lien on property as of January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the school district's taxes and remits them to the school district.

School district property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to the current year property taxes receivable which is not intended to be used

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

6. PROPERTY TAX

to finance the current year's appropriations and therefore are not susceptible to accrual has been reported as deferred revenue in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal year or within the "available period."

7. CHANGES IN CAPITAL ASSETS

A summary of the changes in capital assets for the year ended June 30, 2010 is as follows:

	Balance <u>7/01/09</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>06/30/10</u>
Government Activities:				
Capital Assets				
not being				
depreciated				
Land	\$ 27,980	\$ -	\$ -	\$ 27,980
Capital Assets				
being depreciated				
Buildings	2,378,773	-	-	2,378,773
Machinery and				
Equipment	728,253	119,804	56,036	792,021
	<u>3,107,026</u>	<u>119,804</u>	<u>56,036</u>	<u>3,170,794</u>
Less accumulated depreciation for:				
Buildings	808,610	50,870	-	859,480
Machinery and				
Equipment	325,214	64,330	56,036	333,508
	<u>1,133,824</u>	<u>115,200</u>	<u>56,036</u>	<u>1,192,988</u>
Total capital assets				
being depreciated,				
net:	<u>1,973,202</u>	<u>4,604</u>	<u>-</u>	<u>1,977,806</u>
Governmental activity				
capital assets,				
net:	<u>\$2,001,182</u>	<u>\$ 4,604</u>	<u>\$ -</u>	<u>\$2,005,786</u>

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

7. CHANGES IN CAPITAL ASSETS (continued)

Depreciation expense was charged to functions as follows:

Instruction	\$ 62,208
Support Services	35,712
Cocurricular Activities	<u>17,280</u>
	<u>\$ 115,200</u>

	Balance <u>7/01/09</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>06/30/10</u>
Business-type Activities:				
Capital Assets				
being depreciated				
Machinery and				
Equipment	\$ 94,681	\$ -	\$ -	\$ 94,681
Less accumulated depreciation for:				
Machinery and				
Equipment	<u>17,790</u>	<u>5,894</u>	<u>-</u>	<u>23,684</u>
Total capital assets				
being depreciated,				
net:	<u>76,891</u>	<u>(5,894)</u>	<u>-</u>	<u>70,997</u>
Business-type activity				
capital assets,				
net:	<u>\$ 76,891</u>	<u>\$ (5,894)</u>	<u>\$ -</u>	<u>\$ 70,997</u>

Depreciation expense was charged to functions as follows:

Food Service	<u>\$ 5,894</u>
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JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

8. LONG-TERM LIABILITIES:

A summary of changes in long-term liabilities follows:

Governmental Activities:

	<u>Other Post Employment Benefits</u>
Balance, June 30, 2009	\$ -
Additions	12,611
Deletions	<u>-</u>
Balance, June 30, 2010	<u>\$ 12,611</u>
Due within one year	<u>\$ -</u>

See also note 13 for further discussion.

9. RESTRICTED NET ASSETS

The following table shows the net assets restricted for other purposes as shown on the Statement of Net Assets:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay Fund	Law	\$ 248,716
Special Education Fund	Law	888,051
Pension Fund	Law	261,528
Food Service	Law	<u>13,494</u>
Total Restricted Net Assets:		<u>\$1,411,789</u>

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

10. RETIREMENT PLAN

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$65,548, \$63,737, and \$59,756, respectively, equal to the required contributions each year.

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

11. JOINT VENTURES

The school district participates in the Three Rivers Special Services Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education and other services to the member school districts. The members of the co-op and their relative percentage of participation

Bennett County	29%
Jones County	9%
Kadoka	21%
Lyman	21%
White River	20%
	<u>100%</u>

The co-op's governing board is composed of one representative from each member school district who is a school board member. The board is responsible for adopting the co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The school district retains no equity in the net assets of the co-op, but does have a responsibility to fund deficits of the co-op in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Three Rivers Special Services Cooperative, Midland, South Dakota.

As of June 30, 2010, this joint venture had a total net assets of \$878,924 and long-term debt of \$8,237.

12. RISK MANAGEMENT

The school district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2010, the school district managed its risks as follows:

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

12. RISK MANAGEMENT (continued)

Employee Health Insurance:

The School District purchases health insurance from a commercial carrier.

Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The School District purchased liability and property insurance from a commercial carrier.

The School District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

The School has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended June 30, 2010, no claims were paid for unemployment benefits. At June 30, 2010, no claims had been filed and were outstanding. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

Worker's Compensation

The School District purchased worker's compensation insurance from a commercial carrier.

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

12. RISK MANAGEMENT (continued)

The School District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

13. OTHER POST EMPLOYMENT BENEFITS:

Plan Description:

The Jones County School District's (the District) Post-employment Health Care Plan is a single-employer defined benefit healthcare plan which provides medical benefits to eligible retirees and their spouse. The Plan is authorized by SDCL 6-1-16 and is administered by the District. The Plan does not issue a stand-alone financial report.

Funding Policy:

The contributions of plan members and the District are established by District policy. The required contribution is based on projected "pay-as-you-go" financing requirements, with an additional amount to pre-fund benefits as determined annually by the District. For 2010 the required contribution to the plan was \$12,611. Since no contribution was made in fiscal 2010 the District accrued a liability of \$12,611, as of June 30, 2010.

Annual OPEB cost and Net OPEB Obligation:

The District's annual other post-employment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liability over a period not to exceed thirty years.

The following table shows the District's annual OPEB cost for the year, the amount actually contributed to the Plan and changes in the District's net OPEB obligation to the Plan.

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

13. OTHER POST EMPLOYMENT BENEFITS (continued)

Annual required contribution	\$ 12,611
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB Cost	<u>12,611</u>
Contribution made	<u>-</u>
Increase in net OPEB obligation	12,611
Net OPEB Obligation, Beginning of year	<u>-</u>
Net OPEB Obligation, End of year	<u>\$ 12,611</u>

The District's annual OPEB cost is \$12,611 for fiscal 2010, of which the pay-as-you-go cost was 69% or \$8,708.

Funded Status:

The Plan is on a "pay-as-you-go" basis, therefore it is not funded as of June 30, 2010.

Actuarial Assumptions:

The June 30, 2010 actuarial valuation was compiled using the "alternative measurement method" actuarial cost method. The assumptions included a 4.5% rate of return (net of administrative expenses) and an annual health-care cost trend of 10% initially, grading to 5% over 6 years. The amortization period of the unfunded liability is 30 years.

The following table shows the District's status and funding progress of the plan:

Status and Funding Progress	Valuation Date June 30, 2010
Actuarial Accrued Liability	\$ 92,727
Actuarial Value of Plan Assets	-
Actuarial Accrued Liability ((AAL)	92,727
Ratio	0.0%
Payroll (active plan members)	\$1,026,159
Percentage of Covered Payroll	9%

JONES COUNTY SCHOOL DISTRICT NO. 37-3
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE-
GENERAL FUND -BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$636,000	\$636,000	\$645,937
Prior year's ad valorem taxes	0	0	4,862
Gross receipts taxes	60,000	60,000	65,507
Penalties and interest	0	0	2,449
Earnings on deposits:			
Interest earned	10,000	10,000	3,545
Cocurricular activities:			
Admissions	14,500	14,500	9,579
Other	21,000	21,000	18,075
Other revenues from local sources:			
Rentals	5,000	5,000	4,075
Contributions	4,000	4,000	2,297
Other	4,000	4,000	5,532
Revenues from Intermediate Sources:			
County Sources:			
County apportionment	17,000	17,000	17,324
Revenues from State Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid	478,000	478,000	465,643
Revenues from Federal Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid received from federal government through state	0	0	5,771
Restricted grants-in-aid received from federal government through state	259,951	259,951	224,420
Total Revenue	\$1,509,451	\$1,509,451	\$1,475,016

Variance
with Final
Budget

\$9,937

4,862

5,507

2,449

(6,455)

(4,921)

(2,925)

(925)

(1,703)

1,532

324

(12,357)

5,771

(35,531)

(\$34,435)

JONES COUNTY SCHOOL DISTRICT NO. 37-3
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE-
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual
	Original	Final	
Expenditures:			
Instruction:			
Regular Programs:			
Elementary	\$386,900	\$386,900	\$350,716
High school	385,103	385,103	368,028
Other	9,550	9,550	6,600
Special Programs:			
Educationally deprived	125,195	125,195	91,922
Support Services:			
Pupils-			
Guidance	9,275	9,275	7,233
Health	7,505	7,505	7,200
Psychological	1,545	1,545	1,541
Instructional staff-			
Improvement of instruction	25,168	25,168	25,168
Educational media	72,095	72,095	58,243
General administration-			
Board of education	17,830	17,830	13,820
Executive administration	75,500	75,500	72,867
School administration-			
Office of the principal	75,500	75,500	73,499
Business-			
Fiscal services	86,550	86,550	81,614
Operation and maintenance of plant	256,760	256,760	236,785
Pupil transportation	71,655	71,655	58,652
Other	23,000	23,000	16,365
Central:			
Staff	450	450	346
Community Services:			
Care and custody of children	114,570	114,570	90,441

Variance
with Final
Budget

\$36,184

17,075

2,950

33,273

2,042

305

4

0

13,852

4,010

2,633

2,001

4,936

19,975

13,003

6,635

104

24,129

JONES COUNTY SCHOOL DISTRICT NO. 37-3
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE-
GENERAL FUND BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual
	Original	Final	
Cocurricular activities:			
Male activities	\$27,250	\$27,250	\$21,653
Female activities	23,330	23,330	18,571
Transportation	15,610	15,610	14,787
Combined activities	40,800	40,800	35,840
 Total Expenditures	 1,851,141	 1,851,141	 1,651,891
 Net Change in Fund Balance	 (341,690)	 (341,690)	 (176,875)
 FUND BALANCE, JULY 1, 2009	 816,591	 816,591	 816,591
 FUND BALANCE, JUNE 30, 2010	 \$474,901	 \$474,901	 \$639,716

The accompanying notes to required supplemental information
are an integral part of this schedule.

Variance
with Final
Budget

\$5,597

4,759

823

4,960

199,250

164,815

0

\$164,815

JONES COUNTY SCHOOL DISTRICT NO. 37-3
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE-
CAPITAL OUTLAY FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$150,000	\$150,000	\$139,573
Prior year's ad valorem taxes	0	0	680
Penalties and interest	0	0	404
Earnings on deposits:			
Interest earned	950	950	562
Other	0	0	28,283
Revenues from Federal Sources:			
Grants-in-aid:			
Restricted grants-in-aid received from federal govenement through state.	0	0	52,441
Total Revenue	150,950	150,950	221,943
Expenditures:			
Instruction:			
Regular Programs-			
Elementary	10,000	10,000	7,857
High school	25,000	25,000	24,331
Support Services-			
Instructional staff-			
Educational media	6,500	6,500	2,938
Business-			
Operation and maintenance of plant	164,819	164,819	101,048
Pupil transportation	67,500	67,500	59,641
Cocurricular activities:			
Male activities	1,000	1,000	978
Female activities	2,500	2,500	2,430
Transportation	25,000	25,000	12,500
Total Expenditures	302,319	302,319	211,723

Variance
with Final
Budget

(\$10,427)

680

404

(388)

28,283

52,441

70,993

2,143

669

3,562

63,771

7,859

22

70

12,500

90,596

JONES COUNTY SCHOOL DISTRICT NO. 37-3
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE-
CAPITAL OUTLAY FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Net Change in Fund Balance	(\$151,369)	(\$151,369)	\$10,220
FUND BALANCE, JULY 1, 2009	<u>238,327</u>	<u>238,327</u>	<u>238,327</u>
FUND BALANCE, JUNE 30, 2010	<u><u>\$86,958</u></u>	<u><u>\$86,958</u></u>	<u><u>\$248,547</u></u>

The accompanying notes to required supplemental information
are an integral part of this schedule.

Variance
with Final
Budget

\$161,589

0

\$161,589

JONES COUNTY SCHOOL DISTRICT NO. 37-3
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE-
SPECIAL EDUCATION FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$234,583	\$234,583	\$268,107
Prior year's ad valorem taxes	0	0	1,701
Penalties and interest	0	0	959
Earnings on deposits:			
Interest earned	3,000	3,000	1,991
Revenues from Federal Sources:			
Grants-in-aid:			
Restricted grants-in-aid received from federal government through state	90,687	90,687	84,380
Total Revenue	328,270	328,270	357,138
Expenditures:			
Instruction:			
Special Programs:			
Programs for special education	331,634	331,634	165,261
Support Services:			
Pupils-			
Speech pathology	66,600	66,600	35,079
Student therapy	2,000	2,000	0
Special Education:			
Other	7,905	7,905	5,901
Total Expenditures	408,139	408,139	206,241
Net Change in Fund Balance	(79,869)	(79,869)	150,897
FUND BALANCE, JULY 1, 2009	736,751	736,751	736,751
FUND BALANCE, JUNE 30, 2010	\$656,882	\$656,882	\$887,648

The accompanying notes to required supplemental
information are an integral part of this schedule.

Variance
with Final
Budget

\$33,524

1,701

959

(1,009)

(6,307)

28,868

166,373

31,521

2,000

2,004

201,898

230,766

0

\$230,766

JONES COUNTY SCHOOL DISTRICT NO. 37-3
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE-
PENSION FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$61,810	\$61,810	\$62,254
Prior year's ad valorem taxes	0	0	332
Penalties and interest	0	0	197
Total Revenue	61,810	61,810	62,783
Expenditures:	0	0	0
Net Change in Fund Balances	61,810	61,810	62,783
FUND BALANCE, JULY 1, 2009	198,662	198,662	198,662
FUND BALANCE, JUNE 30, 2010	\$260,472	\$260,472	\$261,445

The accompanying notes to required supplemental information
are an integral part of this schedule.

Variance
with Final
Budget

\$444

332

197

973

0

973

0

\$973

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010

1. Budgets and Budgetary Accounting:

The school district followed these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to the first regular board meeting in May of each year the school board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the school board at the first regular meeting held in the month of May each year.
3. The proposed budget is published for public review no later than July 15 of each year.
4. Public hearings are held to solicit taxpayers input prior to the approval of the budget.
5. Before October 1 of each year, the school board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the school board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district and may be transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.

JONES COUNTY SCHOOL DISTRICT NO. 37-3
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010

9. Unexpected appropriation lapse at year-end unless encumbered by resolution of the school board. No encumbrances were outstanding at year-end.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
11. Budgets for the General And Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP), except that the GAAP financial statements report capital outlays separately from current expenditures, but the budgetary statements report them together with current expenditures in the budgetary category to which they relate.